AUGUST 26, 1985 THREE DOLLARS

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Forbes

PAY-PER-VIEW TELEVISION

THE IMPOSSIBLE DREAM

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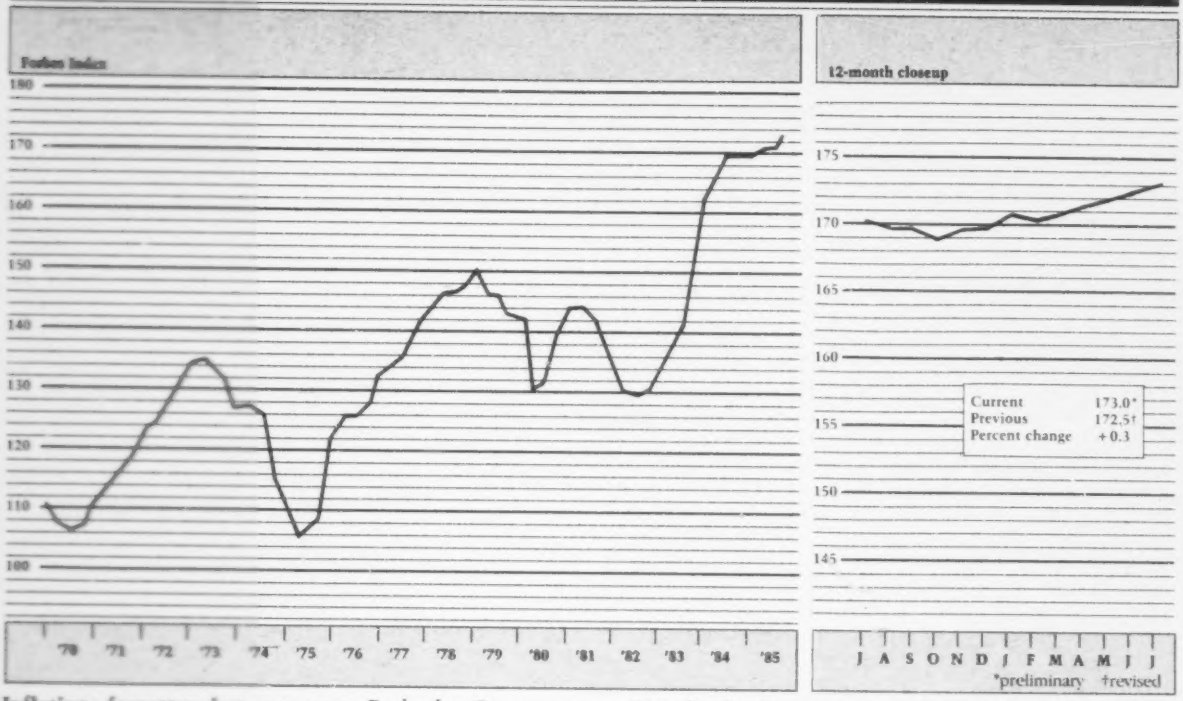
The Forbes Index



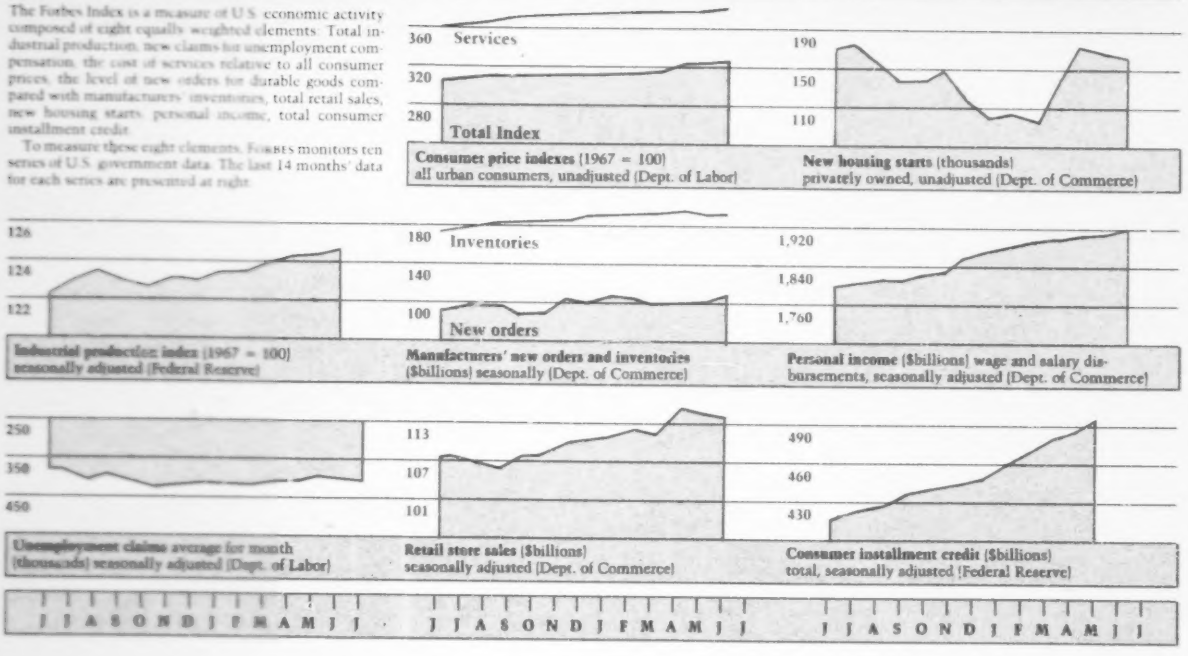
Inflation: forgotten but not gone. Both the Consumer Price Index for services and the overall CPI rose 0.6% for the month of June. Prices are only 4.1% higher than a year ago. But if the June rate keeps up for the next 12 months, our inflation rate will be 7.5%, almost double that of 1984. While energy and commodity prices remain depressed, labor costs are on the increase.

Overall, the Forbes Index gained 0.3% over the past month. Manufacturers' new orders hit a record mark with a 3.6% month-to-month gain. Inventories crept up 0.5% from the previous month. Less encouraging was a 1.5% month-to-month rise in new unemployment claims. And consumer installment credit was 1.9% higher than month-earlier figures.

The Forbes Index Components

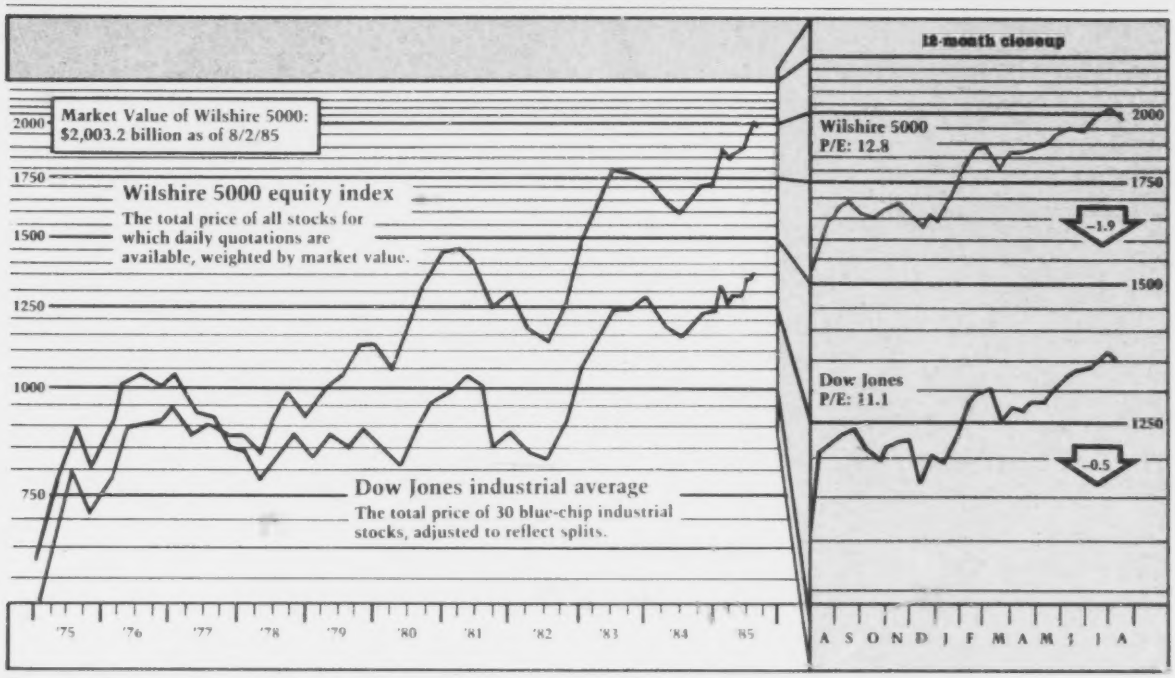
The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



The Forbes/Wilshire 5000 Review

Edited by Steve Kichen


12-month closeup
Market Value of Wilshire 5000: $2,003.2 billion as of 8/2/85
Wilshire 5000 equity index
The total price of all stocks for which daily quotations are available, weighted by market value.
Dow Jones industrial average
The total price of 30 blue-chip industrial stocks, adjusted to reflect splits.
Wilshire 5000 P/E: 12.8
Dow Jones P/E: 11.1
-1.9
-0.5
2000
1750
1500
1250
1000
750
'75 '76 '77 '78 '79 '80 '81 '82 '83 '84 '85
A S O N D J F M A M J J A

Conservative stocks get shaky. Wall Street shied away from utilities, food stocks and other conservative shares that had been popular over the past several months and turned its attention to more speculative shares. The Nasdaq gained 2% during the last four weeks, the Amex 1%. While the Nasdaq is still 7.4% off its alltime June 1983 high, it widened its 52-week performance lead over the Dow industrials: up 23.7%, compared with only 12.6% for the Dow. The yardsticks below show the relative strength of secondary shares over the last month.

During the recent two-week period, however, investors turned tail and sold both secondary and blue-chip stocks. For the two weeks, the Nasdaq slipped 1% and the Amex 0.8%. The average Big Board issue was off 2.1% while the overall market, as measured by the Wilshire, declined 1.9%. Considering that stocks are up 34% over the past year (dividends included), a patch of summer doldrums is perhaps tolerable.

Closeup On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	–0.3	0.1	1.4	–0.7	1.0	2.0
in last 52 weeks	19.7	20.8	12.6	18.9	15.3	23.7

Stock performance based on six key investor yardsticks

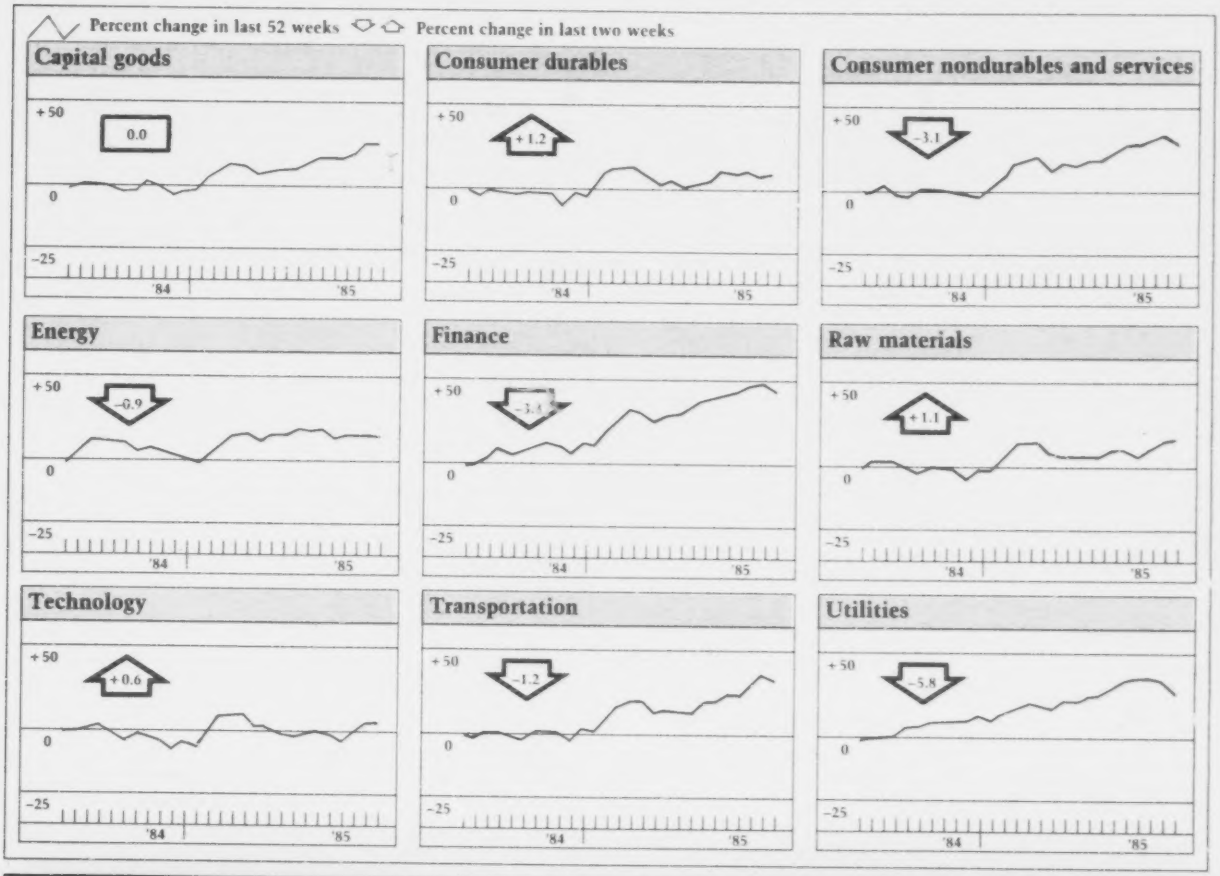
Percent change	Company size		Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	–0.9	4.4	5.0	0.0	3.0	1.1	–1.1	4.3	4.0	0.3	0.6	3.4
in last 52 weeks	23.7	23.4	26.8	35.1	16.7	35.5	31.1	28.7	24.3	32.9	32.1	11.9

[1]Based on sales.
[2]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 8/2/85. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

Are utilities down or out? Almost overnight utility shares went from champs to chumps. During the last two weeks this sector dropped 5.8%, a fall three times greater than that of the overall market. Investors purchase utility shares primarily for their generous yields, but from January to the beginning of July these shares appreciated slightly more than the Wilshire 5000 index. Then, in late July, there was near panic selling, as too many investors decided at the same time to capture their handsome capital gains. Electric companies were hit harder than phone companies. Now that the speculative bubble has burst, utilities are likely to get attention as interest rate plays. Unless rates show signs of rising sharply, utility prices should stabilize.



What The Analysts Think

Darkening forecast for technology earnings. The technology sector had the sharpest cuts in 1985 earnings projections in the last two weeks. At the same time, however, this sector was one of the few bright spots in the market. Investors may be gambling that the outcome for technology stocks will not be as bleak as predicted.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$3.47	11.6
1985 estimates	3.96	10.2
1986 estimates	4.53	8.9

Rank based on change in estimate	Sector	Estimated 1985 EPS	Estimated 1985 P/E	% change in 1985 estimate in 2 weeks	% change in 1985 estimate in 4 weeks
1	Consumer durables	$4.73	7.7	0.01%	-0.93%
2	Finance	3.27	10.2	-0.02	0.43
3	Utilities	3.39	7.9	-0.14	-0.29
4	Consumer nondurables	2.47	12.9	-0.21	-0.40
5	Energy	3.44	8.3	-0.49	0.10
6	Capital goods	2.73	12.0	-1.07	-2.29
7	Transportation	2.74	10.6	-1.33	-2.41
8	Raw materials	1.99	13.1	-1.44	-3.06
9	Technology	2.57	13.4	-1.84	-3.21

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continuously by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 8/2/85. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.

While the S&Ls have been wrestling with their problems, some savvy investors have been making a killing on their stock.

Buying on bad news

By Ben Weberman and Matthew Schifrin

EACH WEEK Kenneth Rilander, managing director of PaineWebber Capital Markets, sets a couple of associates to updating a 40-page listing of Schedule 13D, 13G and F11 filings. These documents list holdings of 5% or more in savings and loan stocks. Right now, he says, those 13Ds and 13Gs are probably at an alltime high.

The meaning is clear: S&L stocks have been moving into the hands of big and supposedly knowledgeable investors. "The same investors show up in my listings time and again," Rilander says. "They know the industry, and they know the players."

The big players in S&L stocks include hedge funds like Steinhardt Partners and Tiger; the Belzberg brothers; and the big, bargain-hunting Mutual Shares Corp. mutual fund. FMR Corp., parent of the Fidelity Group of mutual funds, has stock positions in 18 thrifts across the country. Others may have five or six positions of 5% or more *(see table)*.

Take Liberty Federal Savings & Loan of Philadelphia, where two smart investor groups, Tweedy, Browne and the Fidelity Fund people, have at times owned 9% and 6.5% positions respectively while the stock moved from 7½ to 30¼ during the past year.

What's the appeal? To a large degree, the S&Ls are interest rate plays. As interest rates drop, it costs them less to hire money. An S&L that has bought mortgages yielding, say, 12% is in deep trouble if interest rates rise to 15% or more; but it is in clover if they drop to 8% or 9%. Julian Robertson, general partner of the Tiger and Jaguar hedge funds (FORBES, *Apr. 22*), likes savings and loans that have been trying to insulate their earnings from interest rate swings by offering more variable-rate mortgages. Tiger and Jaguar own 9.8% of Collective Federal Savings & Loan in southern New Jersey and 9.95% of Metropolitan Federal Bank in Fargo, N.D.

Another appeal: as takeover candidates. As more and more companies seek a stake in financial services, S&Ls become attractive acquisitions. Ford Motor Co. is putting almost $500 million on the line to buy $10.7 billion (assets) First Nationwide Financial Corp. at $32 a share. First Nationwide traded as low as 12½ last year.

New York Stock Exchange member Lieber & Co. has been a big player. It took a big position in First Federal Savings of Winter Haven, Fla., whose

The S&L game

Ownership statements filed with government agencies show which thrifts appeal to the big players. Money managers' selections for purchase of big blocks provide a clue to savings associations that should have the best market moves. The list below has been compiled by PaineWebber from filings of 13D, 13G and F11 forms with the Federal Home Loan Bank Board, the Securities & Exchange Commission and the Federal Deposit Insurance Corp. Some holdings have fallen below 5% since the original filing.

Investor	Savings institution	% ownership
FMR Corp	Broadview Financial Corp	7.5
	Downey Savings & Loan Assn	1.7
	First Federal of Michigan	1.4
	Magnet Bank	1.3
	Metropolitan Federal Bank	7.9
	Atlantic Financial Federal	9.0
	First Indiana Federal Savings Bank	1.4
	Great Lakes Federal Savings & Loan Assn	8.0
	Home Federal Savings & Loan Assn of the Rockies	8.4
	Liberty Federal Savings & Loan of Philadelphia	3.2
	NAFCO Financial Group Inc	0.1
	Ponce Federal Bank	6.7
	Savings Bank of Puget Sound	5.4
	The Boston Bancorp	4.6
	Union Warren Savings Bank	9.3
	Washington Federal Savings & Loan Assn	5.6
	First Savings Assn of Wisconsin	7.0
	Westchester Financial Services Corp	7.3
Lieber & Co (Evergreen Mutual Funds)*	Athens Federal Savings Bank	5.0
	Liberty Federal Savings & Loan of Georgia	5.1
	Morris County Savings Bank	5.4
	Mid-State Federal Savings & Loan Assn	8.1
	New Hampshire Savings Bank Corp	6.0
	Numerica Savings Bank	8.0
	Pawling Savings Bank	6.7
	Heritage Federal Savings & Loan Assn	4.8
	First Mutual Savings Assn of Florida	5.0
	First Savings Bank of Florida	4.8
	United First Federal Savings & Loan Assn	4.4
	Saver's Bancorp, Inc	5.2
	The One Bancorp	4.1
Mutual Shares Corp	Sooner Federal Savings & Loan Association	9.6
	First Mutual Savings Assn of Florida	5.8
	Society for Savings	7.1
	The Boston Bancorp	4.2
	The Provident Institution for Savings	9.7
	Union Warren Savings Bank	9.0

*Figures compiled by FORBES.

shares were selling at 10 in 1983. First Federal was acquired in July for $26.94 a share by another thrift, Philadelphia Savings Fund Society. The same month First Fidelity Bancorp of Newark tendered at 52 for Morris County Savings Bank of Morristown, N.J., which went public at $10.75 in 1983. The Salomon Brothers Thrift Stock Price Index rose 86% from last July to this, an increase nearly three times as great as that for the market as a whole.

The smart money, however, prefers not to invest passively. It tends to go for working control. The reason is obvious: By getting control, investors can force management to do their bidding, change policies or liquidate—whatever is in the new owners' immediate interest.

Garth Marston, chairman and CEO of Provident Institution for Savings, contends that market forces have created a three-tier structure for thrift stocks. "Every thrift whose stock is inactive, such as ours—80% to 85% held by five or six institutions—has in effect three separate prices," Marston says. "The quoted Nasdaq price represents the bid and asked for blocks of 100 shares. The price would be considerably higher for someone buying a block, even as small as 2,000 shares, and much higher for someone trying to get 51% to 100%."

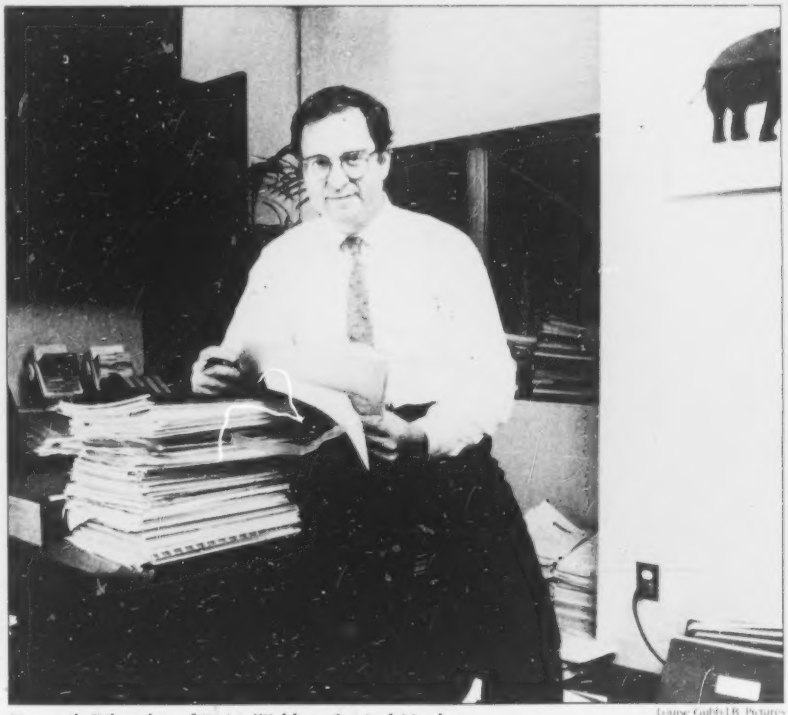
Is the game over? Is the smart money moving on and out? Have the big rollers skimmed off all the cream? Some institutional investors think so, especially those who believe interest rates will go up again. A few years ago Robert Torray, principal of Torray Clark & Co., had almost 20% of his portfolio in thrifts. He is currently managing $2.5 billion. In the last two years Torray has sold them all off. Torray Clark owned about 18% of American Savings & Loan of Florida and substantial amounts of Imperial Corp. and Home Federal in San Diego, Calif. "We must have been the biggest shareholder in the country in thrifts," says Torray. "People are too enthusiastic about them now. I wouldn't touch them today."

And, of course, not all thrifts are equal. Some sit on bad paper and speculative investments. Others are loaded with old, low-interest mortgages. Big investors have the time and clout to analyze the portfolios and know which thrifts are solid and which are riddled with losses. Ordinary investors, however, are playing blindman's buff. For those who think interest rates will drop further, selected thrifts may still be good buys. But recognize: You are scarcely getting in on the ground floor. ■

The S&L game

Investor	Savings institution	% ownership
Putnam Management Co†	Home Federal Savings & Loan Assn of San Diego	1.0
	Imperial Corp of America	1.4
	Great Western Financial Corp	0.2
Equitable Life Assurance Society of the US	CityFed Financial Corp	9.8
	Home Federal Savings & Loan Assn of San Diego	10.0
	Great Western Financial Corp	1.5
Alliance Capital Management Corp‡	Great Western Financial Corp	7.6
	Golden West Financial Corp	7.3
	CalFed Inc	5.4
	Home Federal Savings & Loan Assn of San Diego	9.5
BEA Associates Inc	Nevada Savings & Loan Assn**	6.4
	First Financial Corp	8.1
	CityFed Financial Corp**	5.3
Builtland Partners (Howard Milstein)	American Federal Savings & Loan Assn of Colorado	7.0
	First Savings Bank of Florida	5.8
	Heritage Federal Savings & Loan Assn	9.9
	Home Federal Savings & Loan Assn of Arizona	8.8
	Westchester Financial Services Corp	9.0
Tiger & Jaguar (Julian H. Robertson)*	Collective Federal Savings & Loan Assn	9.8
	First Federal Savings & Loan of Charleston, SC	9.0
	Great Western Federal Savings Bank	5.8
	Metropolitan Federal Bank	10.0
	Shoreline Savings Bank	7.3
	Capitol Federal Savings & Loan Assn	8.1
	Home Federal Savings & Loan Assn of Palm Beach	4.1
St Francis Investment Co	Valley Federal Savings & Loan Assn	6.9
	First Indiana Federal Savings Bank	8.8
	Collective Federal Savings & Loan Assn	5.2

*Figures compiled by Forbes. †A wholly owned subsidiary of Marsh & McLennan Cos. Inc. ‡A wholly owned subsidiary of Equitable Life Assurance Society of the U.S. **Investor disclaims beneficial ownership.



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Kenneth Rilander of PaineWebber Capital Markets
Have the big rollers skimmed off all the cream?